



Legislation Text

File #: Ordinance 13-2018, **Version:** 2

Agenda Date: 04/17/2018

Subject:

An ordinance on second reading regarding the proposed Pre-Inclusion Agreement with South Metro Fire Rescue for fire and emergency medical services commencing January 1, 2019

Presented By: Steve Kemp, City Attorney

REQUESTED COUNCIL ACTION:

Does city council approve the proposed Pre-Inclusion Agreement with South Metro Fire Rescue (SMFR) for fire and emergency medical services commencing January 1, 2019?

BACKGROUND:

The members of the Littleton Fire Rescue partnership (Highlands Ranch Metro District and the Littleton Fire Protection District) provided notice that they will leave the Intergovernmental Agreement effective December 31, 2018. At that time, fire and emergency medical services (hereinafter, "Fire Services") will significantly change within the City of Littleton.

As a result, the city commenced negotiations with the Fire Authority operated by SMFR (hereinafter, "SMFR") regarding the inclusion of the City of Littleton into the district. The city manager established a negotiation team to represent the city in the discussions with SMFR. The team included Deputy City Manager Randy Young, Fire Chief Chris Armstrong (operations), Finance Director Tiffany Hooten (financial issues), Acting Human Resources Director Julie Lanier (personnel), and City Attorney Steve Kemp (legal).

Attached is the proposed Pre-Inclusion Agreement with SMFR. This agreement establishes the framework for the inclusion of the city into SMFR. The agreement additionally establishes the provision of fire service by an authority on behalf of SMFR should the voters of the city reject inclusion into SMFR. There is a redlined draft showing the major issues addressed since the February 27, 2018 study session and the revised version.

STAFF ANALYSIS:

There are fundamental principles that are the basis of the Pre-Inclusion Agreement. First, SMFR and the city will serve the same citizens and taxpayers with the intent that any additional costs incurred by the citizens should result in an improved level of service for fire and emergency medical services, and provide the structure for additional funding for capital improvements for streets and transportation. Second, the SMFR option offers the opportunity to improve services to the citizens at the lowest costs. Third, the Pre-Inclusion Agreement must be aligned with the council's direction provided in its prior discussions.

Council's direction includes: (1) the inclusion in SMFR will maintain current levels of service including emergency medical services; (2) minimize disruption to citizens and employees; and (3) recognize the financial impacts and support the city's plans to move to financially sustainable operations and capital plans.

Under state statute, should the voters of the city approve inclusion on November 6, 2018, the city will become part of the fire authority on January 1, 2019. The adjustments in mill levy rates will become effective on January 1, 2020. This is due to a provision in state statute requiring special district expansions to be approved by the District Court before and after an election and that the order approving the expansion be recorded prior to July 1 of the year preceding imposition of the changes in mill levy.

FISCAL IMPACTS:

There are several financial impacts to the city in the long term. In 2019, the city will have to contract for fire service with SMFR (under the Fire Authority). Beyond 2020 will depend on the results of the November 2018 election.

Fiscal year 2019

The city will be required to contract with SMFR for the fiscal year 2019 due to a provision in state statute requiring approval of the district expansion before a mill levy is effective, regardless of the result of the November 2018 election. According to the Pre-Inclusion Agreement, the city will be required to pay the equivalent of 9.25 mills along with an amount equal to the specific ownership tax the city will receive in 2019. The estimated cost for fire service contracted with SMFR in 2019 is \$8.5 million.

Fiscal Year 2020 and Thereafter

The city will have two possible financial approaches for providing fire services to its citizens under the Pre-Inclusion Agreement beginning on January 1, 2020. Which approach the city will take is dependent on the results of the November 2018 election.

Inclusion

There are several financial considerations for citizens, as well as the city, should the voters approve inclusion. Some of the long-term impacts include the following:

Impact to citizens:

The SMFR mill levy of 9.25 would be added to property owners in the city, however, the city will reduce its mill levy by 4.662 mills and dedicate \$3.1 million to fund streets and transportation annually. In addition to enhanced fire services, citizens will see significant improvements to streets and transportation as a result of joining SMFR. An example of the impact to property taxes is below.

Residential*

Current property tax per month
6.662 mills City of Littleton
\$14.79 per month

New property tax per month
2 mills City of Littleton
\$9.25 mills SMFR
\$24.98 per month

Difference of \$10.19 per month

*Based on \$370,000 valued home

Commercial**

Current property tax per month
6.662 mills City of Littleton
\$161 per month

New property tax per month
2 mills City of Littleton
9.25 mills SMFR
\$271.88 per month

Difference of \$110.88 per month

**Based on \$1,000,000 valued property

Impact to city:

- Long-term
 - Revenue related
 - The city mill levy would be reduced from 6.662 mills to 2 mills - a reduction of \$4 million in property tax revenue.
 - Specific Ownership Tax revenue would be reduced due to the decrease in the property tax mill levy - estimated to be \$272,000.
 - Fire service contracts with Lockheed Martin and Meadowbrook would be terminated - \$653,000
 - Loss of administrative fee from fire partners - \$760,000
 - Other reduction in revenue related to fire - \$530,000
 - Expense related
 - Elimination of fire expenses - \$7.1 million
 - The dispatch contract will be terminated as these services would be provided by SMFR and included in the 9.25 mills added to property owners - saving the city \$293,790 annually.
 - No future fire capital costs/repairs/maintenance for apparatus or fire stations with the exception of Station 11 as this will be leased to SMFR.
 - The city would dedicate \$3.1 million to streets and transportation annually as a result of the reduction in fire costs to be adjusted annually.

There are also several one-time financial impacts to the city.

- The city may be required to pay off its portion of capital leases in advance - \$560,000
- Personnel vacation/comp time buyout - \$477,000
- Share in election costs - \$50,000
- Transfer of Emergency Medical Service net position to the General Fund - estimated at \$725,000; however, the actual amount would be determined at the end of 2018.

Contract

Without Inclusion there would be no direct impact to property tax payers, however, the city would be unable to dedicate additional funding for streets and transportation which will continue to add to the capital and infrastructure needs of the city. In addition, the city would be required to pay more for fire services beginning in 2019, which will have a direct impact to overall city services. There are several financial impacts to citizens and property owners, as well as the city, should the voters not approve an inclusion:

- The city mill levy would remain at 6.662 mills.
- The city would contract for fire service with SMFR at a cost estimated at \$8.5 million for a 9.25 mill levy equivalent plus specific ownership tax; an increase of approximately \$1.4 million over the 2018 fire budgeted costs.
- The city would maintain ownership of all assets with a lease agreement with SMFR - the costs to be determined.
- The dispatch contract will be terminated as these services would be provided by SMFR and included in the 9.25 mill equivalent fee - saving the city \$293,790.
- No additional funding for streets and transportation.

There are several outlying issues that are yet to be determined and will continue to be evaluated which include,

but are not limited to:

- Reduction in 17% reserve in the General Fund
- Transfer of EMS Enterprise net position to the General Fund
- City-wide administrative support provided for the fire department
- Health insurance benefits impact to city employees
- Dental insurance benefits impact to city employees
- Workers compensation insurance impact to city employees
- Property and liability insurance impact to city employees

SUMMARY

Based on preliminary projections for the next five years and based on the information known and estimated, inclusion will allow the city to provide enhanced fire and EMS service through SMFR, while also allowing the city to dedicate \$3.1 million each year (adjusted for growth/inflation) to streets and transportation.

In April, city staff will be discussing with council the five-year fiscally constrained financial plans to include the impact of the inclusion with SMFR. While the 2017 year-end information will not be final until May 31, 2018, it is anticipated there will be savings from 2017. This is not uncommon for cities. This will provide additional unanticipated resources for the city that can fund the contract for fire service with SMFR in 2019 without affecting service levels. In addition, during the 2019 budget process, this may allow an opportunity to further reallocate resources to the capital projects fund for street maintenance and infrastructure needs.

A reduction in fire expenditures will directly impact the General Fund reserve requirement resulting in the opportunity for city council to evaluate it. Currently, the reserve requirement of 17% is calculated on the operating expenditures of the General Fund. With the reduction of fire expenditures in the General Fund, the reserve policy of 17% results in a lower dollar amount required. The 2018 General Fund reserve is calculated at \$11.1 million. The new 17% reserve requirement would be approximately \$7.1 million after inclusion. There are additional factors with inclusion that will require the use of some of the reserves specifically related to city-wide administrative support of fire services.

STAFF RECOMMENDATION:

Staff recommends approval of the Pre-Inclusion Agreement on second reading.

PROPOSED MOTION:

I move to approve the ordinance on second reading concerning a Pre-Inclusion Agreement between the City of Littleton and South Metro Fire Rescue.